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VOL. CLIII NO. 130 Wednesday, July 6, 1988 153rd Year

Today

Japanese banks posted a 21.1% rise in pretax profits for the year ended March 1. The increase was a record for the 87 members of the Federation of Bankers Associations of Japan. ____ 2

Chemical Bank has filed with the SEC to issue its first securities backed by credit card receivables. _____ 2

Salomon Brothers was the leading underwriter of asset-backed securities in the second quarter of 1988, as the volume of new issues jumped almost 75% from the previous quarter. ___ 2

Gov. James J. Blanchard has signed legislation allowing Michigan banks to open branches anywhere in the state beginning Aug. 1._____ 2

A listing of the FDIC-insured banks that have failed or been rescued so far this year includes 87 companies that were liquidated or merged. And 15 other banks have received assistance to keep from failing. _____ 10

Executive Changes _____ 5
In the News _____ 3

COMMENT

The single most important ingredient of an ethical corporate culture is the example set by senior management, according to Susan S. Spagnola, vice president-senior counsel of Chemical Bank._____ 4

TECHNOLOGY

Visa is gaining ground in its battle with the Federal Reserve System to process automated clearing house transactions. The Hawaiian Electronic Funds Transfer Association plans to begin clearing direct salary deposits and other electronic payments through Visa's network by October. 3

MasterCard and Visa, in their latest skirmish, are arguing over the cause of an industrywide decline in credit card losses. _____ 6

Automated Financial Systems claims to be the leading software provider in commercial loan systems for big banks. Although its systems run on IBM mainframes, the company, based in Exton, Pa., has made its mark without an IBM marketing agreement. 6

J.C. Penney's payments and communications network has won the business of credit card authorization and data capture for Unocal Corp.'s service stations in the West. _____ 7

A Sallie Mae software package is helping Boatmen's National Bank of St. Louis process and track the more than 2,000 student loans it disburses each month. _____ 7

Worth Repeating

With the relatively weak dollar, there is still the possibility of foreign buyers. And the New York banks are certainly still interested in doing deals.

Virginia A. Adair, vice president of Merrill Lynch Capital Markets, on the merger situation in New Jersey. [Page 1]

Random Thoughts

By SANFORD ROSE

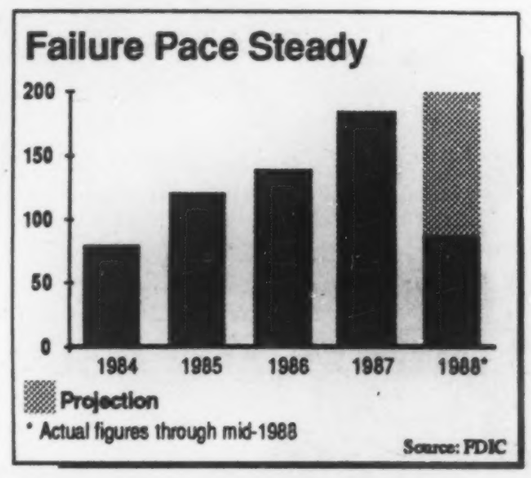
Theo H. Pitt Jr., chairman of the U.S. League of Savings Institutions, recently told a meeting of the New York Society of Securities Analysts that the interest-rate-mismatch problem of the thrift industry is not nearly as serious as many people suggest. Barring a massive increase in rates, averred the trade association executive, the thrifts are in relatively good shape.

Mr. Pitt is wrong — seriously wrong. Calculations based on Federal Home Loan Bank Board data indicate that even a 100-basis-point increase in rates would gravely damage the savings and loan industry.

If sustained over a period of one year, such a rise would cost the industry, other things being equal, $1.4 billion in income — more than it earned after taxes in 1986. If sustained over a three-year period, it would wipe out $4.6 billion in income — approximately three quarters of the industry's net after-tax profit for the 1984-86 period.

The thrift industry's one-year gap — calculated by subtracting the dollar volume of liabilities that will be repriced in the next year from

Random Thoughts: Page 4 ➤



Bank Failures Keeping Pace With Last Year

By BARBARA A. REHM
Washington Bureau

WASHINGTON — Halfway through 1988, bank failures nearly match the record pace set in the first half of 1987. But this year the frequency and cost of government rescues of failing institutions may hit all-time highs.

In the first six months of this year, the banking system withstood 87 failures. At this time last year, 96 banks had closed, according to government figures.

Since January, however, 15 banks have been kept open with $2.4 billion in federal aid. By July of 1987, four banks had avoided failure as a result of government intervention. In all of 1987, a total of 19 bailouts had occurred at a cost to the Federal Deposit Insurance Corp. of $1.1 billion.

One key to keeping the FDIC's costs down is luring private capital to bailout

Bank Failure List
Page 10

Bank Failures: Page 12 ➤

FROM THE REGIONS:

THE MIDDLE ATLANTIC

After Flurry, Jersey Deals Wane

By GORDON MATTHEWS

NEW YORK — A year ago this week, New Jersey announced it would be the first major state, other than New York, to open its borders to nationwide banking on a reciprocal basis. The flurry of activity that followed and the quiet that has since descended are now being assessed by banking analysts and industry observers.

Among the principal developments were the nation's largest banking deal, which resulted in the creation of a new superregional bank, First Fidelity Corp.; a major interstate deal for the state's third largest banking company, United Jersey Banks; and the foreign acquisition of the fourth largest company, First Jersey National Corp.

Nearly as important as this $2.5 billion trio of deals — all unveiled in the month after New Jersey's announcement — are a pair of nondevelopments:

First, there have been no New Jersey deals completed by major banking companies in New York, which had long waited for the chance to move beyond their borders and then found other constraints on their plans.

Chemical New York Corp. agreed several years ago to acquire Horizon Bank Corp., Morristown, N.J., after the

From the Regions: Page 14 ➤

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→ Continued from Page 1

the dollar volume of assets to be repriced in the same period and dividing that number by total assets — amounts to minus 19% (the negative number indicating, of course, that more liabilities than assets reprice). The three-year gap equals minus 21%. These numbers could spell disaster in a period in which most analysts forecast rising rates.

Mr. Pitt is fond of asserting that the thrift problem is confined to a comparatively small percentage of savings and loans — those afflicted with much-publicized credit woes (although even he would probably have to admit that the percentage shows signs of rising). The great bulk of associations, it is claimed, are safe and sound.

But this is an illusory soundness, built on the temporary success of a widespread interest rate gamble.

What separates many of the so-called good associations (the interest rate gamblers) from the bad ones (the credit high rollers) is merely an inconsistent application of accounting principles. When a loan goes bad, the regulators force it to be marked to market, exposing the loss of equity. But when an interest rate mismatch begins to sour, there is no requirement to mark to market.

A rise in rates will adversely impact institutions that are long assets — asset durations greater than liability durations — by reducing the worth of assets by more than the worth of liabilities. Despite the lack of accounting recognition, the loss of equity values is just as real as in the case of defaulted loans, although the magnitude of the loss may initially be less. Eventually — and in many cases rather quickly — this decline in real net worth is reflected in lower income and lower accounting net worth.

As a spokesman for the thrift industry, Mr. Pitt is required to be optimistic. He is not, however, required to be pollyannish.

The sad fact is that savings and loans may be on the point of replaying, albeit with some attenuation, what has been termed phase one of the industry crisis — the crisis of 1980-82, when rising rates resulted in huge losses and failures for those whose maturities (durations) were seriously mismatched. This crisis, of course, led ineluctably to phase two of the thrift drama — the post-1982 debacle of credit-loss-induced failures and near-failures.

Many institutions that limped through phase one of the crisis attempted to recoup their losses by more expansive risk taking, much like a drunk who tries to stave off a hangover by prolonging his binge. As Dan Brumbaugh, the former deputy chief economist of the Bank Board, puts it: "Financial gains accrue primarily to owners and managers if an insolvent institution takes a significant risk that succeeds, while the deposit insurer bears most of the cost if the risk fails. Deposit insurance thus fosters a 'heads, I win; tails, the FSLIC loses' attitude in insolvent institutions that are allowed to continue operating.

"These perverse effects . . . also apply to depository institutions that are likely to become insolvent. Increased risk taking offers possible improvement and resurrection in a relatively short time. . . ."

As we now know, resurrection was quite selective in the post-1982 period. Those associations that tried to recover by replacing their interest rate bets did famously, at least for a while, because of the dramatic fall in rates. But those that elected to gamble on credit rather than exclusively in the interest rate area foundered. Unable to manage the risks of such activities as acquisition and development lending, they ultimately perished, leading in the process to the bankruptcy of the FSLIC.

Is the industry condemned to oscillate, almost mechanically, between ruinous credit losses and equally ruinous interest rate losses until the public, in vexation, votes to nationalize? Mr. Brumbaugh notes that the 1987 increase in interest rates accounted for a significant part of the thrift industry's losses during that year. Whether these losses adumbrate a rerun of the vicious cycle cannot be known with certainty because we cannot predict interest rates.

But the 1987 performance, warns the former Bank Board economist, is a sobering reminder of the interest rate danger. It is a danger that people like Mr. Pitt are foolish to minimize.

□ □ □

How does commercial loan pricing vary by maturity? Loan Pricing Corp. of New York has analyzed some 1,400 C&I loans made between mid-1987 and mid-1988. All loans are variable-rate credits with a Libor option, so that in each case the maturity of the yield is quite short.

However, the maturity of the facility varies sharply, and so does the pricing. The pricing pattern can be best delineated by a U-shaped curve. Raw spreads are high at the short end of the maturity curve, averaging about 175 basis points over Libor for under-six-month credits.

In the intermediate term — facilities with maturities of from 24 to 36 months — spreads decline sharply, averaging around 75 basis points over Libor. Then, in the longer term — facilities lasting upward of four years — spreads begin rising again, reaching an average of around 185 basis points on six-year-plus maturities.

The fee pattern traces a similar curve. Upfront fees are high for short-dated facilities, then drop sharply over the intermediate term, only to resume their climb for facilities with maturities of longer than four years.

This pricing pattern, superficially anomalous, is more easily understood when we examine the typical purpose of loans of various maturities. Customers for intermediate-term credit generally borrow for working-capital needs. The two-to-three-year revolving credit is the most uncomplicated of loans. It is also the bread and butter of most banks. What's more, many borrowers can, and frequently do, obtain at least a portion of their working-capital funds from insurance companies or in the commercial paper market.

Since this type of credit is relatively straightforward and is offered by practically all lenders, it is apt to be the most competitively priced vehicle. Banks simply cannot charge very much for these plain-vanilla accommodations, regardless of their maturities. Indeed, the evidence indicates that the maturity premium for working-capital revolvers is practically nonexistent, amounting to around two to three basis points per year.

Short-dated credits are predominantly bridge loans for capital equipment or real estate construction. At present, these loans appear to be concentrated in the water-transportation, textile-mills, primary-metals, and services industries.

Banks have little effective competition from nonbank lenders in the provision of this type of credit. Borrowers cannot very easily access the commercial-paper or private-placement markets for bridge loans, especially since most need considerable financing flexibility — i.e., they want to take down the funds as needed, instead of borrowing in a lump sum. Banks are thus able to charge spread and fee premiums for setting up a short-term facility that allows, say, a manufacturer to draw against a predetermined line in order to pay for equipment whose delivery date is uncertain.

In effect, the borrower is paying extra for the superior liquidity afforded by bank-type financing. Additionally, the fact that the bank has to recapture its fixed setup cost in a relatively short period of time tends to raise the price of this type of credit.

The very long-term credits are extended primarily for takeovers, leveraged buyouts, and corporate recapitalizations. These loans are currently most popular in such industries as health care, motion pictures, hotels, and of course air transportation. Such customized facilities are the most complicated and the riskiest, so it is easy to see why banks have been able to charge the highest fees and spreads.

Thus the smooth and highly symmetrical dish-shaped pattern of pricing by maturity is readily explicable. Banks can charge more for short loans because of liquidity and payments-mechanism factors that tend to restrict competition from nonbank lenders. They can charge more at the long end because of complexity and risk factors.

But they can't charge nearly as much for the intermediate-term loan, given its standardized purpose and the intensity of the competition — bank and nonbank — for the borrower's business. It is therefore not hard to figure out why bank lenders will gravitate inexorably to either end of the loan-maturity spectrum. ■

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BRIEF COMMENT

Spirit of Law Guides Manager's Decision

The following excerpt is from a speech by Susan S. Spagnola, vice president-senior counsel of Chemical Bank, delivered June 28 at Pace University. The presentation, titled "Making Ethics Work," was sponsored by the Institute of Business Ethics.

□

WITH or without a written code of ethics, the single most important ingredient of an ethical corporate culture is the example set by senior management — through actions and written and oral communications.

When employees know what type of behavior is expected of them and what is sauce for the goose is sauce for the gander, business ethics become not only valued and respected, but a necessary part of any business decision.

For example, a friend of mine is an international lawyer for a U.S. firm. She was asked to give her opinion on an activity taking place in South America that was tantamount to price-fixing and clearly would be in violation of U.S. antitrust laws.

She advised her boss, a senior executive, that although the activity would be illegal under U.S. law, this might not be the case under the governing foreign law, and she would look into it. The immediate and unequivocal response: "Don't bother; we are a U.S. company and the spirit of the U.S. law, if not the letter, governs our business wherever we are."

In the context of implementing business ethics, this response was worth more than any written rule or formalized compliance program. ■

FDIC-Insured Banks that Have Failed or Been Rescued in 1988

Washington Bureau

WASHINGTON — The following is a list of U.S. banks insured by the Federal Deposit Insurance Corp. that failed or received FDIC financial assistance during the first half of 1988.

A bullet (•) denotes an agricultural bank, defined by the FDIC as having agricultural loans exceeding 25% of its total loans.

The number of insolvent banks that were either liquidated or merged into other companies is 87. Fifteen banks received FDIC assistance to keep them from failing.

At mid-1987, there were 96 failures and four banks needing assistance.

In all of 1987, 184 banks closed and 19 received assistance. In 1986, 138 banks closed and seven got financial help from the FDIC.

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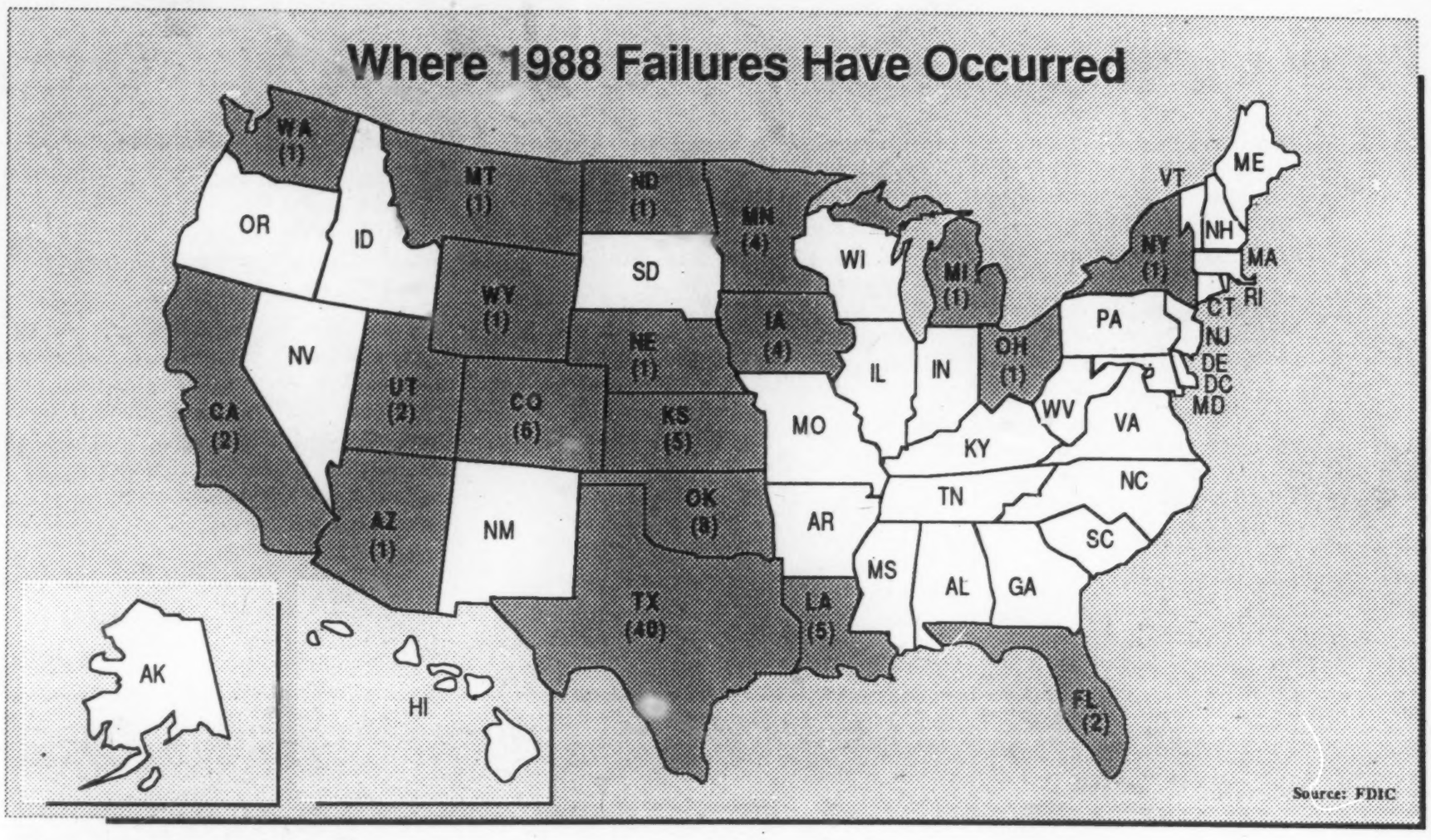


1. **Commerce Bank of Plano,** Plano, Tex. closed Jan. 7. Insured deposits of $40.6 million transferred to Quinlan State Bank, Quinlan, Tex. Deposits of $251,000 were not insured.

2. **The North American Bank,** Phoenix, closed Jan. 8. Insured deposits of $29.4 million to Columbia Bank, Avondale, Ariz. Deposits of $496,000 were not insured.

3. **The Moran National Bank,** Moran, Tex., closed Jan. 14. Deposits of $15.9 million assumed by the Peoples State Bank, Clyde, Tex.

4. **Colonial Bank,** New Orleans, closed Jan. 14. Deposits of $47.4 million assumed by Pontchartrain State Bank, Metairie, La.

5. **Balboa National Bank,** National City, Calif., closed Jan. 14. Deposits payoff. All but $75,000 of total deposits of $25.2 million were within the federal insurance limit.

• 6. **Aredale State Bank,** Aredale, Iowa, closed Jan. 20. Deposits of $9.9 million assumed by First Security Bank & Trust Co., Charles City, Iowa.

• 7. **Cedar Vale State Bank,** Cedar Vale, Kan., closed Jan. 21. Deposits of $11.5 million assumed by Chisholm Trail State Bank, Wichita, Kan.

8. **The Williston Basin State Bank,** Williston, N.D., closed Jan. 21. Deposits of $12.1 million assumed by First National Bank & Trust Co. of Williston, N.D.

9. **Louisiana Commercial Bank,** Madisonville, La., closed Jan. 21. Deposits of $28.7 million assumed by Pontchartrain State Bank, Metairie, La.

10. **Sam Houston National Bank of Walker County,** Huntsville, Tex., closed Jan. 21. Deposits of $37.5 million assumed by the Huntsville National Bank, Huntsville, Tex.

11. **United Mercantile Bank,** Shreveport, La., closed Jan. 21. Deposits of $70.1 million assumed by Hibernia National Bank, New Orleans.

12. **Northwest Bank,** Dallas, closed Jan. 21. Insured deposits of $57.5 million transferred to Haltom Bank (American Bank of Haltom City), Haltom City, Tex.

13. **Bank of Casper,** Casper, Wyo., closed Jan. 22. Deposits of $5.4 million assumed by First Wyoming Bank-Casper, Casper, Wyo.

14. **Port City Bank,** Houston, closed Jan. 28. Deposits of $59.3 million assumed by Channelview Bank, Channelview, Tex.

15. **Houston Commerce Bank,** Houston, closed Jan. 28. The FDIC paid off deposits of $36.6 million.

16. **The Trust Bank,** Hialeah, Fla., closed Jan. 29. Insured deposits of $159.6 million transferred to Republic National Bank of Miami, Miami.

17. **The Bank of Louisburg,** Louisburg, Kan., closed Feb. 3. Deposits of $20.9 million assumed by Peoples National Bank & Trust, Ottawa, Kan.

18. **Bank of Dallas,** Dallas, closed Feb. 5. Deposits of $170.2 million assumed by Deposit Guaranty Bank, also of Dallas.

19. **First Houston Bank N.A.,** Houston, closed Feb. 11. Insured deposits of $28 million transferred to Texas Commerce Bank, N.A., also of Houston.

20. **First State Bank,** Oilton, Okla., closed Feb. 11. Deposits of $11.7 million assumed by the American National Bank of Bristow, Bristow, Okla.

21. **First State Bank,** White Cloud, Mich., closed Feb. 12. Deposits of $36.5 million assumed by Peoples State Bank, St. Joseph, Mich.

22. **Global Bank,** Hialeah, Fla., closed Feb. 12. Deposits of $19.2 million assumed by Ocean Bank, Miami.

23. **Basin State Bank,** Vernal, Utah, closed Feb. 12. Deposits of $11.3 million assumed by Zions First National Bank, Salt Lake City.

• 24. **The Farmers and Merchants Bank of Hill City,** Hill City, Kan., closed Feb. 18. Deposits of $16.6 million assumed by Farmers and Merchants Bank of Hill City, a newly chartered subsidiary of Stockton Bancshares Inc., Stockton, Kan.

25. **Mustang Community Bank,** Mustang, Okla., closed Feb. 18. Deposits of $9.6 million assumed by the First National Bank of Moore, Moore, Okla.

26. **Collin County State Bank,** Melissa, Tex., closed Feb. 25. Deposits of $11.9 million assumed by Willow Bend National Bank, Plano, Tex.

27. **Harris County Bank-Houston N.A.,** Houston, closed Feb. 25. Insured deposits of $78.3 million transferred to Omnibanc South N.A., Houston. About $663,000 in 28 accounts exceeded insurance limit.

28. **American National Bank,** Stafford, Tex., closed Feb. 25. Deposits of $26.3 million assumed by Park National Bank of Houston.

• 29. **The Home State Bank,** Russell, Kan., closed March 3. Deposits of $53.7 million assumed by First National Bank and Trust Co., Salina, Kan.

30. **Flower Mound Bank,** Flower Mound, Tex., closed March 3. Deposits of $17.2 million assumed by Security Bank, also of Flower Mound.

31. **The First National Bank and Trust Co. of Cushing,** Cushing, Okla., closed March 10. Insured deposits of $59.1 million transferred to the American Bank of Bristow, Bristow, Okla.

32. **First American Bank and Trust of Baytown,** Baytown, Tex., closed March 10. Deposits of $38.5 million assumed by Citizens Bank and Trust Co. of Baytown.

• 33. **Hayesville Savings Bank,** Hayesville, Kan., closed March 10. Insured deposits of $35.6 million transferred to Farmers Savings Bank, Fremont, Iowa.

34. **Security Bank of Denver N.A.,** Denver, closed March 10. Deposits of $16.8 million assumed by City Center National Bank of Aurora, Aurora, Colo.

35. **First American Bank and Trust of Manvel,** Manvel, Tex., closed March 10. Insured deposits of $12.4 million transferred to First National Bank of Alvin, Alvin, Tex.

36. **First American Bank and Trust of Friendswood,** Friendswood, Tex., closed March 10. Deposit payoff. All but $143,000 of total deposits of $6.4 million were within the federal insurance limit.

• 37. **Frenchman Valley Bank,** Palisade, Neb., closed March 10. Deposit payoff. All but $101,000 of total deposits of $2.6 million were within the federal insurance limit.

38. **First Intercounty Bank of New York,** New York City, closed March 11. Insured deposits of $36.1 million transferred to Community National Bank and Trust Co., also of New York City.

39. **First National Bank of Port Allen,** Port Allen, La., closed March 17. Deposits of $17.6 million assumed by Iberville Trust and Savings Bank, Plaquemine, La.

40. **Citizens State Bank,** Gibbon, Minn., closed March 18. Deposits of $14.9 million assumed by Minnesota Valley Bank, Redwood Falls., Minn.

41. **State Bank of Morgan,** Morgan, Minn., closed March 18. Deposits of $19.4 million assumed by Farmers and Merchants State Bank, Springfield, Minn.

42. **Cashion Community Bank,** Cashion, Okla., closed March 24. Deposits of $6.4 million assumed by Community State Bank, a newly chartered subsidiary of Warrior Bank Corp., also of Cashion, Okla.

43. **Century State Bank,** Tulsa, Okla., closed March 24. Deposits of $69.4 million assumed by the Fourth National Bank of Tulsa.

44. **First National Bank of Del City,** Del City, Okla., closed March 25. Insured deposits of $26.2 million transferred to Lincoln National Bank, Oklahoma City, including $29,000 in 40 accounts that exceeded the insurance limit.

45. **First Bank & Trust,** Tomball, Tex., closed March 31. Deposits of $56.7 million assumed by the Hamilton National Bank, Hamilton, Tex.

46. **Union Bank and Trust Co.,** Oklahoma City, closed March 31. Deposits of $167.5 million assumed by a newly chartered bank of the same name.

47. **Central National Bank,** Dallas, closed April 7. Deposits of $15.8 million assumed by Deposit Guaranty Bank, also of Dallas.

48. **Home State Bank,** Trent, Tex., closed April 7. Insured deposits assumed by the Farmers and Merchants National Bank of Merkel, Merkel, Tex.

• 49. **Citizens State Bank of Eagle Bend,** Eagle Bend, Minn., closed April 8. Deposits of $9.3 million assumed by Lake County State Bank, Long Prairie, Minn.

• 50. **Jennings Bank,** Jennings, Kan., closed April 14. Deposits of $6.8 million assumed by Bank of Oberlin, Oberlin, Kan.

51. **Cy-Fair Bank N.A.,** Harris County, Tex., closed April 14. Insured deposits of $11.5 million transferred to Charter National Bank-Willowbrook, Houston, Tex.

52. **Metropolitan Industrial Bank,** Denver, Colo., closed April 14. Insured deposits of $12.6 million assumed by Resources Industrial Bank, Denver.

53. **Colonial Thrift and Loan Association,** Culver City, Calif., closed April 15. Deposits of $22.5 million assumed by Southern Pacific Thrift and Loan Association, Beverly Hills, Calif.

54. **McAllen State Bank,** McAllen, Tex., closed April 19. Deposits of $550 million assumed by First City National Bank of Houston. Both banks are subsidiaries of First City Bancorporation of Texas.

55. **Texas National Bank,** Austin, Tex., closed April 21. Deposit payoff. All but $95,000 of total deposits of $16.9 million were within the federal insurance limit.

56. **Citizens National Bank,** Colorado Springs, Colo., closed April 21. Insured deposits of $14.4 million transferred to State Bank and Trust of Colorado Springs.

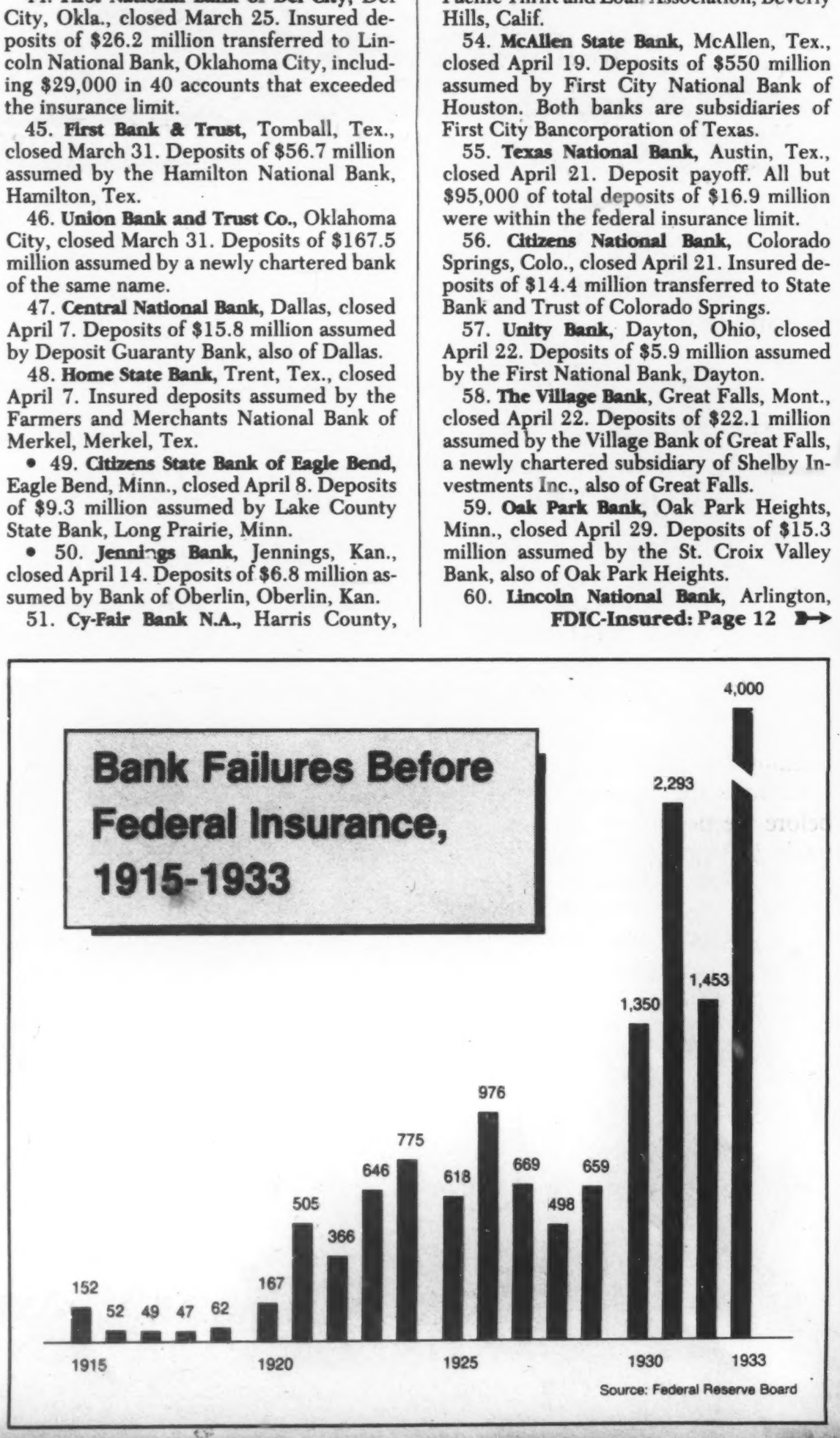
57. **Unity Bank,** Dayton, Ohio, closed April 22. Deposits of $5.9 million assumed by the First National Bank, Dayton.

58. **The Village Bank,** Great Falls, Mont., closed April 22. Deposits of $22.1 million assumed by the Village Bank of Great Falls, a newly chartered subsidiary of Shelby Investments Inc., also of Great Falls.

59. **Oak Park Bank,** Oak Park Heights, Minn., closed April 29. Deposits of $15.3 million assumed by the St. Croix Valley Bank, also of Oak Park Heights.

60. **Lincoln National Bank,** Arlington,

FDIC-Insured: Page 12 ➤



FDIC-Insured Banks that Have Failed or Been Rescued in 1988

→ Continued from Page 10

Tex., closed May 5. Deposits of $11.5 million assumed by Tarrant Bank, Fort Worth, Tex.

61. **Union Bank & Trust,** Dallas, closed on May 5. Deposits of $35.6 million assumed by Cornerstone Bank National Association, also of Dallas.

• 62. **Forest City Bank and Trust Co.,** Forest City, Iowa, closed May 6. Deposits of $26.5 million assumed by Liberty Bank and Trust, also of Forest City, Iowa, a newly chartered subsidiary of Winnebago County Bancorp., Hampton, Iowa.

63. **The First State Bank,** Childress, Tex., closed May 12. Deposits of $14.3 million assumed by Citizens Sate Bank of Dalhart, Dalhart, Tex.

64. **The American State Bank,** Yankton, S.D., was merged on May 18 with First Dakota National Bank, also of Yankton. The $67 million-asset bank was bolstered by $4.28 million from the FDIC and $3.25 million from the shareholders of First Dakota.

65. **National Bank of Texas,** Houston, closed May 19. Deposits of $25.1 million assumed by Old Braeswood National Bank, also of Houston.

66. **Lone Star Bank-Harris County,** Baytown, Tex., closed May 26. Deposits of $12.5 million assumed by Citizens Bank and Trust Co., also of Baytown.

67. **First National Bank of Kingwood,** Kingwood, Tex., closed May 26. Deposits of $15 million assumed by Interstate Bank North, Houston.

68. **The First State Bank,** Rockwall, Tex., closed May 26. Insured deposits of $36.7 million transferred to Community Bank Rockwall, a newly chartered subsidiary of Community Bankers Inc., Granbury, Tex.

69. **Sandy State Bank,** Sandy, Utah, closed May 27. Deposits of $6.7 million assumed by Zions First National Bank, Salt Lake City.

• 70. **Community State Bank,** Whiting, Iowa, closed June 2. Deposits of $5.3 million assumed by Sloan State Bank, Sloan, Iowa.

71. **Guaranty Bank,** Dallas, closed June 2. Deposits of $73.7 million assumed by the Red Oak State Bank, Red Oak, Tex.

72. **Security Bank of Boulder,** Boulder, Colo., closed June 2. Deposits of $13 million assumed by First National Bank in Boulder.

73. **Security Bank of Aurora,** Aurora, Colo., closed June 2. Deposits of $10.2 million assumed by Security Bank of Colorado, also of Aurora, a newly chartered subsidiary of First United Bancorp.

74. **River Plaza National Bank,** Fort Worth, closed June 2. Deposits of $43.7 million assumed by Tarrant Bank, also of Fort Worth.

75. **Williamstown Bank N.A.,** Houston, closed June 2. Deposits of $23.5 million assumed by City National Bank, Houston.

76. **Parkway Bank and Trust,** Dallas, closed June 9. Deposits $39.3 million assumed by Deposit Guaranty Bank, Dallas.

77. **Century National Bank,** Austin, Tex., closed June 16. Deposits of $56.6 million assumed by Community National Bank, also of Austin.

78. **Kingsland National Bank,** Kingsland, Tex., closed June 16. Deposits of $13.2 million assumed by Security Bank and Trust, Fredericksburg, Tex.

79. **The Liberty Bank of Seattle,** Seattle, closed June 17. Deposits of $19 million assumed by the Emerald City Bank, also of Seattle, a newly chartered state nonmember bank.

80. **The Bank of Westminster,** Westminster, Colo., closed June 22. Deposits of $6 million assumed by First National Bank, Westminster, also in Westminster.

81. **Texas National Bank,** Victoria, Tex., closed June 23. Deposits of $12.7 million assumed by Texas National Bank of Victoria, a newly chartered subsidiary of Lone Star Bancshares Inc., also of Victoria.

82. **Northwest Bank and Trust,** Houston, closed June 23. Deposits of $89.9 million assumed by Northwest Bank, Houston, a newly chartered bank.

83. **Tri-Cities Bank and Trust,** Glenn Heights, Tex., closed June 23. Deposits of $9.2 million assumed by Abrams Centre National Bank, Dallas.

84. **The Claiborne Bank & Trust Company,** Homer, La., closed June 28. Deposits of $12.4 million assumed by the Homer National Bank.

85. **Republic National Bank,** Norman, Okla., closed June 30. Deposits of $27 million assumed by Republic Bank of Norman, a newly chartered bank.

86. **First National Bank,** Sherman, Tex., closed June 30. Deposits of $23.1 million assumed by the First National Bank of Van Alstyne, Van Alstyne, Tex.

87. **Mercantile Bank & Trust,** San Antonio, Tex., closed June 30. Deposits of $82.9 million assumed by Groos Bank N.A., San Antonio.

□

These banks, which have not failed, required financial assistance from the FDIC in order to stay open.

1. **The Peoples State Bank and Trust Co.,** Ellinwood, Kan., avoided closing Jan. 7 with $5.3 million from the FDIC. The $40.6 million-asset Kansas bank also got a $2.75 million capital injection from private investors.

2. **Jefferson Guaranty Bank,** Metairie, La., got final approval Jan. 13 for $57.5 million in FDIC assistance to prevent the $307 million-asset bank from failing. Jefferson Guaranty is now part of a newly formed holding company, Royal Windsor Holding Corp., which invested $17 million.

• 3. **Citizens State Bank,** Hayfield, Minn., avoided closing Jan. 27 with $900,000 from the FDIC. The $30.1 million-asset bank also received $1.8 million in additional capital from private local investors.

4. and 5. **Alaska Mutual Bank** and **United Bank Alaska,** both of Anchorage, got final approval Jan. 28 for a $295 million cash infusion from the FDIC. Original deal announced June 23, 1987.

6. **American National Bank,** Parma, Ohio, avoided closing Feb. 12 after receiving a guarantee from the FDIC to cover losses over the next two years up to $1 million. Shareholders put in $2.23 million to recapitalize the bank, which holds $27.2 million in assets and $24.7 million in deposits.

7. **Morehead National Bank,** Morehead, Ky., avoided closing March 15 after receiving a $1.1 million cash infusion from the FDIC. Private investors contributed $1.4 million to the failing $8.2 million-asset bank.

8. **First RepublicBank Corp.,** Dallas, Tex., received $1 billion from the FDIC March 17. A final assistance package for the $28 billion-asset bank is pending.

• 9. **Burns State Bank,** Burns, Kan., avoiding closing April 15 after receiving a $567,000 cash infusion from the FDIC. The money allowed the $4 million-asset failing bank to merge with First National Bank & Trust Co., El Dorado, Kan.

10. **First City Bancorporation of Texas,** Houston, concluded its $1.5 billion rescue April 19. The deal was announced Sept. 9, 1987. The FDIC assistance consisted of $970 million. A. Robert Abboud raised $500 million in private capital to save the $11 billion-asset bank.

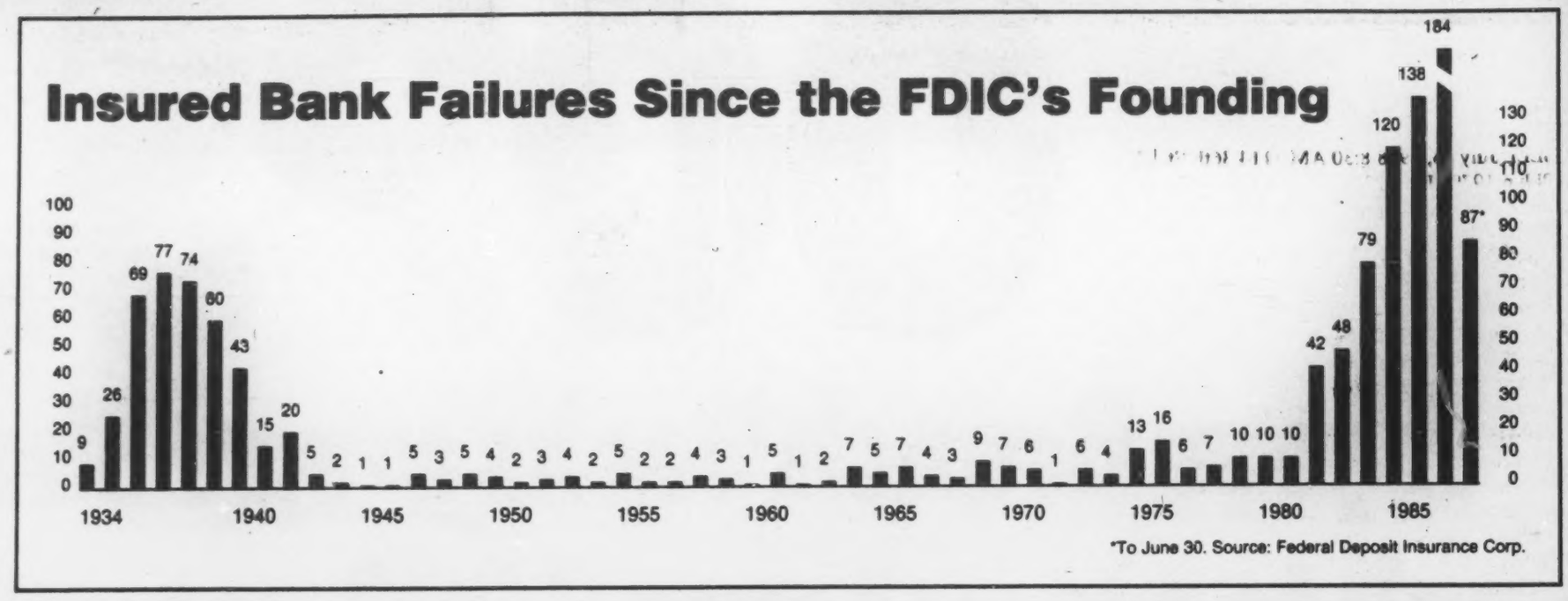
11. **Bank of Santa Fe,** Santa Fe, N.M., was saved from failure April 20. The FDIC purchased a $5 million loan participation in a pool of assets, promised to purchase up to $6 million in additional assets, and bought $12 million in nonvoting, floating-rate preferred stock in the $101 million-asset bank. In return, the FDIC is entitled to an undisclosed proportion of the bank's net earnings above a certain level, will share in net recoveries on assets and claims, and will receive one-third of any gain on the sale of bank stock if it is sold in the next five years. Robert E. Keyes, a private investor, injected $7 million into the bank.

12. **Bond County State Bank,** Pocahontas, Ill., was acquired April 25 by an investor group headed by Karl D. Tauber, an Illinois banker. The group contributed $450,000 to the $6.6 million-asset bank while the FDIC pledged a cash infusion of up to $450,000 to cover deficit net worth of the bank; a guarantee of $825,000 covering losses of principal and interest on loans outstanding at the time of agreement; and indemnification up to $150,000 to cover possible losses and contingent liabilities.

13. **Citizens Bank of Tulsa,** Tulsa, Okla., was acquired April 28 by an investor group led by New Jersey businessman George A. Switlyk. The group contributed $720,000 to the $8.8 million-asset bank while the FDIC pledged a $2.075 cash infusion.

14. **The American State Bank,** Yankton, S.D., was merged May 18 with First Dakota National Bank, also of Yankton. The $67 million-asset bank was bolstered by $4.28 million from the FDIC and $3.25 million from the shareholders of First Dakota.

15. **Bank of Imboden,** Imboden, Ark., was acquired June 14 by Spring Rivers Bancshares Inc., a new bank holding company, also of Imboden. The FDIC pumped in $2.1 million to offset the bank's losses. $17.8 million-asset bank got $1.4 million in additional capital from Spring Rivers. ■



Bank Failures Keep Pace with '87, but Costs Rise

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deals. In assistance deals to date this year, the FDIC has attracted $43 million in private capital and spent $2.4 billion of its own. For all of 1987, the FDIC spent $1.6 billion to keep dying banks open and pulled in $156 million in private funding.

The FDIC continues to predict that the 1988 casualty rate will approach 200, in the same range as last year, when 183 banks were closed. In each of the past four years, record numbers of banks have closed.

But FDIC Chairman L. William Seidman carefully steers clear of predicting failure rates too far into the future, merely suggesting that there will be "fewer" closings in 1989. "The next decade will be an important one for banks," he told a gathering of state bank supervisors last April.

Mr. Seidman predicts that this year the insurance fund will lose money for the first time in its 55-year history. Last month he told a group of Oregon bankers that the $18.3 billion fund may decline 10% because of FDIC aid to prop up ailing Texas banks.

The FDIC chairman, along with Federal Home Loan Bank Board Chairman M. Danny Wall, on Thursday will explain to the House Banking Committee how the federal deposit insurance funds are handling the bank and thrift industries' serious troubles.

The FDIC's staff is currently calculating what the future holds for the fund, Mr. Seidman said in a phone interview on Tuesday. He said he will reveal the agency's predictions at the congressional hearing on deposit insurance on Wednesday.

During the first half of 1988 — as in 1987 — bank closings are concentrated west of the Mississippi.

Texas, with 40 bank closings so far this year, is well on the way to retaining its title as the state with the most failures. It is expected to exceed its 1987 record of 50 bank failures this year.

Three adjacent states — Texas, Louisiana, and Oklahoma — have accounted for 62% of this year's failures. More than half of the banks that failed in 1987 were located in one of these three states, which have been hit hard by the decline in oil prices and depressed real estate.

> Texas, with 40 bank closings so far this year, is well on the way to retaining its title as the state with the most failures.

"Our problem bank list continues to grow, and nonperforming assets continue to grow," Texas Banking Commissioner Kenneth W. Littlefield said last week.

Despite the recent drought, the health of agricultural banks — those that dedicate 25% or more of their portfolios to farm loans — is improving. Last year at this time, 32 farm banks had failed. By contrast, only 10 farm banks have closed this year.

Thirty-one states are failure free so far this year; another nine states have had only one bank closing.

The FDIC must still deal soon with a handful of larger banks in need of expensive government aid. Assistance deals for BancTexas Group Inc., Dallas, and First City Bancorporation of Texas, Houston, already have consumed more than $1 billion in FDIC funds. The cash outlay to rescue struggling First RepublicBank Corp., Dallas, could hit $4.5 billion, matching the 1984 rescue of Continental Illinois in Chicago.

Mr. Seidman also has said two other Texas banks — Texas American Bancshares Inc., Fort Worth, and National Bancshares Corp., San Antonio — will be preserved this year with FDIC cash and notes.

Despite such pending transactions, Mr. Seidman appears to believe the insurance fund is coming through its darkest hour, somewhat drained but intact. He has said repeatedly in the past months that the industry will see modest improvement this year and that no unmanageable crises are in sight, despite predictions to the contrary.

That is good news to other federal regulators who watch the failures mount. "Last year almost 200 American banks failed," Federal Reserve Board Governor H. Robert Heller observed last week. "This constant hemorrhaging has to cease if we are to maintain a stable financial system and if we want to be a leader in international financial markets." ■